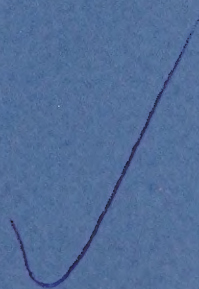


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SOMERVILLE INDUSTRIES LIMITED

**SOO LINE RAILROAD COMPANY
1966 ANNUAL REPORT**

File



DIRECTORS

G. H. BAILLIE, Vice President, Canadian Pacific Railway Company, Montreal, Quebec
JUDSON BEMIS,* President, Bemis Company, Inc., Minneapolis, Minnesota
JOSEPH D. BOND,* Executive Vice President, Soo Line Railroad Company, Minneapolis, Minnesota
G. KENNETH CROWELL, Executive Vice President, Kimberly-Clark Corporation, Neenah, Wisconsin
N. R. CRUMP, Chairman and Chief Executive Officer, Canadian Pacific Railway Company, Montreal, Quebec
JOHN H. DANIELS, President, Archer Daniels Midland Company, Minneapolis, Minnesota
H. ROBERT DIERCKS, Executive Vice President, Cargill, Inc., Minneapolis, Minnesota
F. T. HEFFELFINGER II,* Executive Vice President, Peavey Company, Minneapolis, Minnesota
JOHN HJELLUM, Senior Partner, Hjellum, Weiss, Nerison & Jukkala, Jamestown, North Dakota
HENRY S. KINGMAN,* Honorary Chairman of the Board, Farmers & Mechanics Savings Bank of Minneapolis, Minnesota
E. R. LOVELL, Chairman of the Board (Retired), Calumet & Hecla, Inc., Scottsdale, Arizona
G. ALLAN MacNAMARA, Chairman of the Board (Retired) Soo Line Railroad Company, Fort Lauderdale, Florida
GORDON MURRAY,* President, First National Bank of Minneapolis, Minnesota
LEONARD H. MURRAY,* President, Soo Line Railroad Company, Minneapolis, Minnesota
GEORGE S. PILLSBURY, Executive Vice President, The Pillsbury Company, Minneapolis, Minnesota
H. C. REID, Vice President and Comptroller, Canadian Pacific Railway Company, Montreal, Quebec (Died January 26, 1987)
PETER N. TODHUNTER, Partner, Dixon, Todhunter, Knouff & Holmes, Chicago, Illinois
ROBERT C. WOOD,* President, Minneapolis Electric Steel Castings Company, Minneapolis, Minnesota
J. A. WRIGHT, Q.C., Vice President, Law, Canadian Pacific Railway Company, Montreal, Quebec

*Member, Executive Committee

OFFICERS

EXECUTIVE

LEONARD H. MURRAY, President
JOSEPH D. BOND, Executive Vice President
THOMAS R. KLINGEL, Senior Vice President
THOMAS M. BECKLEY, Secretary and Assistant to President
LAURENCE V. JOHNSON, Assistant to President, Special Studies
DONALD L. BORCHERT, Director of Personnel
WALLACE W. ABBEY, Director of Public Relations
GEORGE W. GUTHRIE, Director of Corporate Planning
ROLLIN J. BAKER, Treasurer
CLARENCE H. JUETTNER, Assistant Secretary
RONALD A. BRACHLOW, Assistant Treasurer

LAW, CLAIM AND TAX

FORDYCE W. CROUCH, Vice President and General Counsel
ROBERT G. GEHRZ, General Solicitor
ERNEST A. JENSEN, General Claim Attorney
HERBERT F. SCHUMACHER, General Freight Claim Agent
VERNON K. BOE, Tax Commissioner

ACCOUNTING

M. I. LaBELLE, Vice President, Accounting
RICHARD J. BARRY, Comptroller
WILBUR J. OLSON, Manager, Integrated Data Processing

OPERATIONS AND MAINTENANCE

THOMAS R. KLINGEL, Senior Vice President
JOHN F. WEGNER, General Superintendent
ARTHUR S. KREFTING, Chief Engineer
THOMAS F. KEARNEY, Chief Mechanical Officer
ROBERT R. DICKINSON, Director, Operating Data Systems
THOMAS J. RUTH, Manager, Purchasing
FRANCIS J. WEINGARTNER, Manager, Materials and Inventory
RUSSELL H. KAPITAN, Manager, Safety, Freight-Damage and Fire Prevention

TRAFFIC

KENNETH J. SHERWOOD, Vice President, Traffic
RAY H. SMITH, Assistant Vice President, Traffic
JAMES T. HARTNETT, General Freight Traffic Manager, Sales and Service
DOUGLAS T. WALLEN, General Freight Traffic Manager, Marketing
GEORGE T. BERGREN, Industrial and Real Estate Commissioner
STANLEY M. MROSAK, Director of Industrial Development

SOO LINE RAILROAD COMPANY

ANNUAL REPORT TO SHAREHOLDERS

FOR YEAR ENDED DECEMBER 31, 1966

HIGHLIGHTS	1966	1965
Net income	\$ 6,532,485	\$ 5,553,914
Per share	\$5.16	\$4.39
Dividends paid	\$ 3,987,614	\$ 3,481,250
Per share	\$3.15	\$2.75
Operating revenues	\$92,849,455	\$85,902,120
Operating expense ratio	73.45%	75.72%
Working capital, year's end	\$15,802,259	\$14,194,066
Current asset ratio, year's end	1.86:1	1.83:1
Return on average net investment used for transportation purposes	3.93%	3.66%
Gross capital expenditures	\$ 8,662,613	\$ 9,387,379
Tons of freight handled	22,183,384	20,684,020
Employees	5,745	5,644

COVER PHOTO: Among the non-statistical highlights of 1966 was a foggy day the equal of which few Twin Cities residents could recall. But fog or no, the Soo continued to operate, thanks to seasoned and dedicated personnel

assisted by two-way radios. That morning Number 3, the overnight Chicago-Minneapolis time freight, materialized out of the fog at Cardigan Junction to find the camera of Public Relations Director Wallace W. Abbey waiting.

OFFICES: Executive and general offices: Soo Line Building, Minneapolis, Minnesota 55440. Sales, service and marketing offices: Minneapolis and 39 other major cities in the United States and Canada. Division operating offices: Minneapolis; Stevens Point, Wisconsin; and Enderlin, North Dakota.

ANNUAL MEETING: The 1967 Annual Meeting of Shareholders will be at 10 a.m. Wednesday,

April 12, 1967, in room 802 of the general offices in Minneapolis.

TRANSFER OF SHARES: Shares of stock in Soo Line Railroad Company are traded on the New York Stock Exchange. Trading symbol is SOO. Transfer and Paying Agent: The Bank of New York, 48 Wall Street, New York, New York 10015. Registrar: Bank of Montreal Trust Company, 2 Wall Street, New York, New York 10005.

WALLACE W. ABBEY

DIRECTOR OF
PUBLIC RELATIONS
SOO LINE RAILROAD
612-332-1261
MINNEAPOLIS 55440

To the Shareholders of the Soo:

The sixth year for the new Soo was its best. The consistent trend of increasing profit and increasing business volume continued.

In the narrative review and statistical material which follow, you will find comments on the Soo's accomplishments and activities during 1966. Let me touch briefly here on the financial highlights of the year and then turn to other matters of current and future interest.

RESULTS FOR 1966 The Soo's net income of \$5.16 per share was greater by nearly 18 per cent than its net of \$4.39 per share in 1965. Net income in 1966 amounted to \$4.92 per share after making the mandatory provision for sinking funds.

Had we not been required by the Interstate Commerce Commission to include in the income accounts the charges occasioned by the retirement of certain properties, net income would have been greater by nearly \$500,000 or about 39 cents per share. The properties we retired were the Duluth passenger station facilities, which were sold, and obsolete track and yard facilities.

It is important to note the added impact of federal income taxes on the Soo's 1966 earnings. Accruals for these taxes consumed the equivalent of 93 cents per share, compared with 19 cents per share in 1965. In dollar amount, federal income taxes increased \$937,000.

DIVIDENDS A dividend of \$1.50 per share was paid in March, 1966. A further dividend of \$1.65 per share was paid in September. On March 24, 1967, a dividend of \$1.50 per share will be paid.

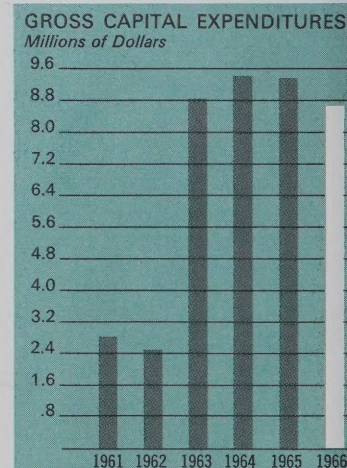
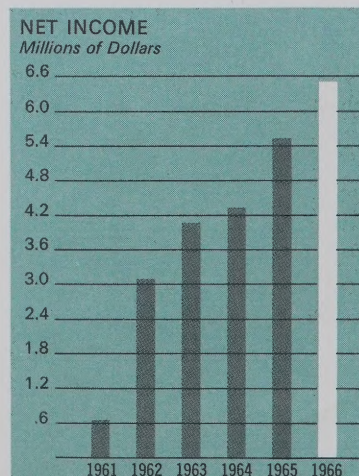
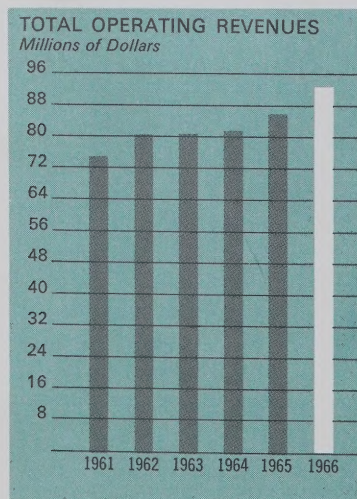
DIRECTORS Since my last report to you, two valued and dedicated members of the Soo's Board of Directors, men who contributed much to the progress of this company, passed away. They were

Robert A. Emerson, President and Chief Operating Officer of Canadian Pacific Railway Company, and Howard C. Reid, Vice President, Accounting, of Canadian Pacific.

George H. Baillie, Vice President of Canadian Pacific, was elected by the Shareholders to the Board on April 13, 1966. The vacancy created by the death of Mr. Reid will be filled at the 1967 Annual Meeting, as will the vacancy which will be created by the retirement at that time of Endicott R. Lovell. Mr. Lovell's many years of devoted service as a Director of the Soo and a predecessor, Duluth South Shore & Atlantic, greatly benefitted the companies' welfare.

MERGERS In my report last year, I commented on an evolution that is taking place in our national economy. The ability to transport, reliably and economically, goods that have been manufactured or processed with typical American efficiency is becoming basic to the future growth of our country. We are now seeing, on the one hand, a revitalization of the railroad industry under the innovative force of interrailroad competition — a revitalization that is necessary to meet the challenges of this economic revolution. On the other hand, we are seeing an effort toward mergers among railroads that is of the utmost significance.

We are concerned because the complexity of the present merger picture imposes a considerable burden upon a company like the Soo. The ICC has been proceeding on the basis of a separation of the merger proposals submitted to it, even though the proposals are, in fact, interrelated. The hypotheses upon which any particular proposal is based are likely to shift. The cost and time involved in keeping track of the mass of mergers are tremendous. It is conceivable that shippers could lose much in





the merger debate because of the difficulty of participating effectively in the proceedings.

At our 1966 Annual Meeting, I commented on our belief that the ICC must, through the use of impartial and independent economic analysis, determine the transportation needs of the nation and the competitive situation that would remain among railroads after mergers. During the year we formally proposed to the Commission that it undertake such an analysis. We asked also that the Commission consolidate the merger and control plans of Chicago & North Western Railway, in which North Western seeks to absorb Chicago Great Western, Rock Island and the Milwaukee Road through what were introduced as three separate proceedings. The Commission has not ruled on the petition for an independent economic investigation or on consolidation of North Western's proposals to acquire Rock Island and the Milwaukee Road. It rejected the idea of consolidating the Chicago Great Western case with the others.

North Western's merger and control plans would have profound effects upon competition and upon other railroads such as the Soo. Should the ICC ultimately give its blessing to North Western's plans, it is essential that it also provide appropriate protection to the Soo, including provision for rights to the Soo to preserve competition and to help offset the diversion of our business that these mergers would cause.

For example, we believe that we must be permitted full access to the Milwaukee metropolitan area and to the paper-manufacturing industries in the upper Wisconsin River Valley. We shall in the course of the ICC hearings make every effort to protect the interests of the Soo's Shareholders should North Western succeed in restructuring the railroad system and railroad economics of the midwest.

THE YEAR AHEAD Results for 1967 will depend greatly upon the level of economic activity nationally and in our territory. Rising wage and material costs will impose new burdens, but we shall be instituting new efficiencies and economies to help offset the higher level of expenses.

Unfortunately, 1967 began with unusually severe weather conditions which were quite costly to the Soo. It is too early to determine the impact of the winter storms on the year as a whole. It is evident, however, that every effort must be made to overcome, in the balance of the year, the decrease in profit brought about by winter weather.

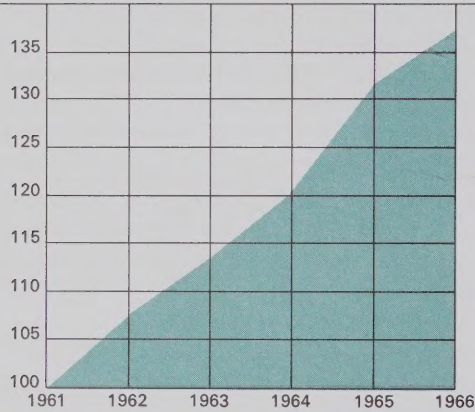
FOR THE DIRECTORS, I submit this report to you and mark our willing acceptance of the challenges of 1967. In doing so, I commend the people of the Soo who worked skillfully and diligently during 1966, and I extend the appreciation of the Soo to our customers for their business and assistance toward mutual goals.

Respectfully, *Leonard H. Murray* PRESIDENT

OPERATING EFFICIENCY

Revenue freight ton-miles per man-hour paid for have increased steadily since the merger.

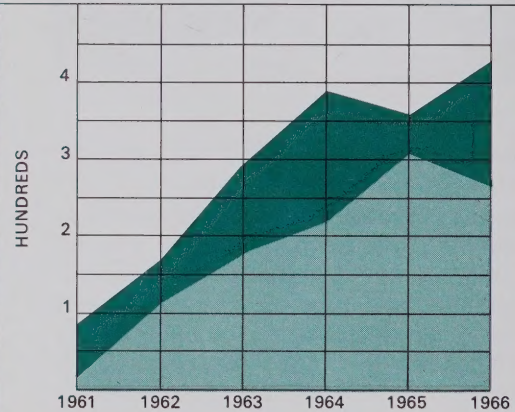
1961 = 100



NEW FREIGHT CARS

Acquisitions in 1966 reached a new high for the new Soo; 1967 acquisitions will be even greater.

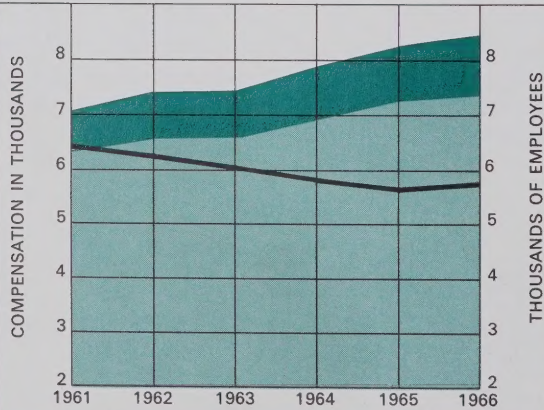
Specialized
General Purpose



EMPLOYMENT AND WAGES

The trend in wage and fringe benefit payments per employee continues its upward movement.

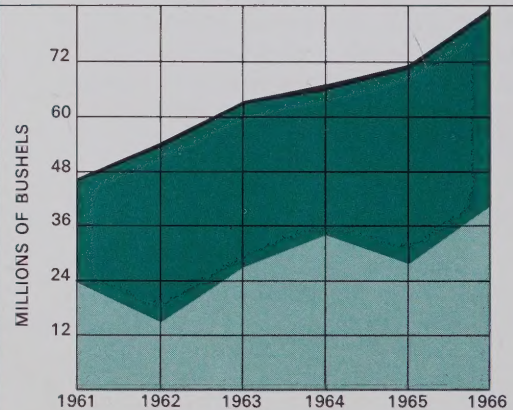
Average employment
Fringe benefits per employee
Wages per employee



GRAIN MOVEMENT

Shown is the volume of grain originated on-line and received from connections and moved to Minneapolis-St. Paul and Duluth-Superior from the territory west of those points.

From connections
Aug. 1 to Dec. 31
Jan. 1 to July 31



REVIEW OF OPERATIONS IN 1966

The increase in net income of nearly a million dollars, or approximately 18 per cent, over the 1965 level was produced on operating revenues that were approximately 8 per cent greater. At work for the Soo was the high level of economic activity in the country. But at work also were the cumulative effects of six years of modernization and a dedicated staff proficient in the application of the Soo's new technology.

REVENUES Forest-originated products — lumber, paper, pulpwood, woodpulp, etc. — contributed the largest portion of the Soo's operating revenues, about \$28.4 million in total. Lumber itself, ranking second only to wheat in the order of individual commodities, produced about \$10.2 million in revenues, a 4.4 per cent decline from the 1965 level generally related to the decline in the home construction market.

General farm products contributed some \$20.7 million to revenues. Wheat revenues were about \$12 million, half again as much as they were in 1965. Factors in the increase were the substantially greater movements to terminal elevators from the country, and the growth of the Soo-initiated UniTrain movement from terminal elevators at Duluth and Minneapolis to the east.

Potash, a commodity the Soo rarely handled in its trains six years ago, brought in \$3.8 million in revenues — a 45 per cent increase over the 1965 level. Traffic in liquefied petroleum gasses increased 57 per cent to produce revenues of \$1.8 million.

Throughout 1966, the Soo was virtually without a source of revenue from the transportation of U. S. Mail, the business having been diverted by the Post Office. Passenger-service revenues, therefore, were less than half of what they were in 1966.

The last substantial passenger operation, the Twin Cities-Winnipeg train, was authorized by the Interstate Commerce Commission for discontinuance in late March, 1967. Upon the elimination of this train the Soo will be able to make significant savings in operating expenses.

The Soo's piggyback traffic continues to grow. During 1966 the company moved more than 19,000 highway trailers over the rails, an increase of nearly 20 per cent over the 1965 movement.

In 1963, the ICC ruled on the protracted transcontinental divisions case. The ruling is now the subject of litigation. As the matter stands, however, the effect of the ruling upon the Soo's revenues is not great. To date the Soo would stand to gain some \$720,000, of which approximately \$220,000 is applicable to 1966 revenues. In compliance with ICC directives, the contingent revenue has not been taken into account.

EXPENSES In dollar amount, the cost of operating the Soo increased by nearly 5 per cent. Operating expenses were, however, a smaller proportion of revenues despite substantial increases in wage costs. The operating expense ratio for 1966 was 73.45 per cent, a decrease of 2.27 percentage points.



FRONT AND REAR, the Soo's principal trains reflect the growing modernity of the company's equipment. New during 1966 were the first of a fleet of all-steel cabooses. Their white and reflective red colors echo the trimness of high-horsepower locomotives.

Major railroads as a group had a combined operating ratio of 76.18 per cent.

Significantly, the relatively more efficient operation was accomplished while the amounts spent to upgrade and maintain the company's facilities and equipment were being increased. Improvements are detailed later in this report.

The ratio to revenues of all expenses, taxes and rents (known as the working expense ratio) declined slightly, maintaining a trend downward that has been constant since 1961. Stated before federal income taxes, the working expense ratio for 1966 was 88.93 per cent, a full percentage point below the 1965 ratio correspondingly stated. The company had no operating-loss carry-forwards to apply against 1966 income, but it did use accelerated depreciation and investment tax credit benefits in computing its federal income tax obligation.

Operations in 1966 were hampered to a considerable degree by a continuation of the freight car shortage.

The important Noyes gateway and certain lines in northeastern North Dakota were blocked for much of April by floods in the Red River Valley.

WAGE COSTS Operating expenses increased during 1966 principally because of higher wage costs. The amount paid by the Soo to its employees, including the cost of fringe benefits, was approximately \$1,850,000 greater than it was in 1965. The major proportion of this increase is included in the higher operating expenses.

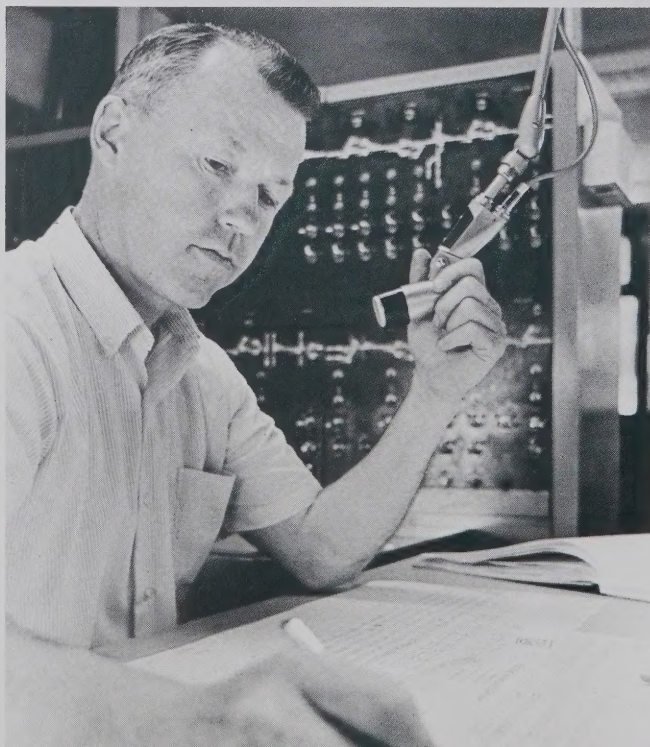
Over the past five years, due to the series of wage and fringe-benefit increases agreed to by the railroad industry, the Soo's manpower costs have risen markedly. Wages paid to off-train employees were, in 1966, 16.4 per cent greater than they were in 1962. Wages paid to train-service employees were 23.6 per cent greater. Payroll taxes for retirement and unemployment benefits were 49 per cent greater in 1966 than they were in 1962. The cost of other fringe benefits increased substantially.

During 1966, most off-train employees received higher wages as part of agreements made in 1964. Late in the year, a 5 per cent increase in wages and improved vacations were granted to train and engine-men, the wage increase being retroactive to August 12. A similar settlement of demands made by clerical employees became effec-



DATA PROCESSING put on its coveralls during 1966 and went to work at Shoreham Yard in Minneapolis, helping in new ways to expedite the flow of loaded freight cars and to monitor the inventory of empties. The system is being expanded.

"TRAFFIC COP" of modern railroading is the dispatcher in his centralized traffic control center. Dispatcher Tom Hagen operates such a center at Stevens Point, moving trains over the main line.



tive January 1, 1967. Wage demands of unions representing other classes of employees were, at year's end, being progressed under the terms of the Railway Labor Act.

OTHER INCOME The net amount of profits from noncarrier activities and Mackinac Transportation Company, together with the interest derived from investments of cash, passed \$1 million. Key factors were the greater amount of invested cash and the high rates of interest paid on these temporary cash investments.

SUBSIDIARIES Tri-State Land Company, the Soo's wholly owned property-management subsidiary, had net income in 1966 of \$119,295. Tri-State paid a dividend of \$100,000 to the Soo, which is included in other income.

During 1966 the Soo and Northern Pacific Railway acquired control of the Midland Continental Railroad, a 69-mile North Dakota line operated out of Jamestown. The Midland Continental will continue to be operated as an independent carrier.

MANAGEMENT The structure of the Soo's management continues to be refined to provide the company with the direction and supervision required by the new demands on physical distribution functions by industry and agriculture, and by the changing forces within the science of management.

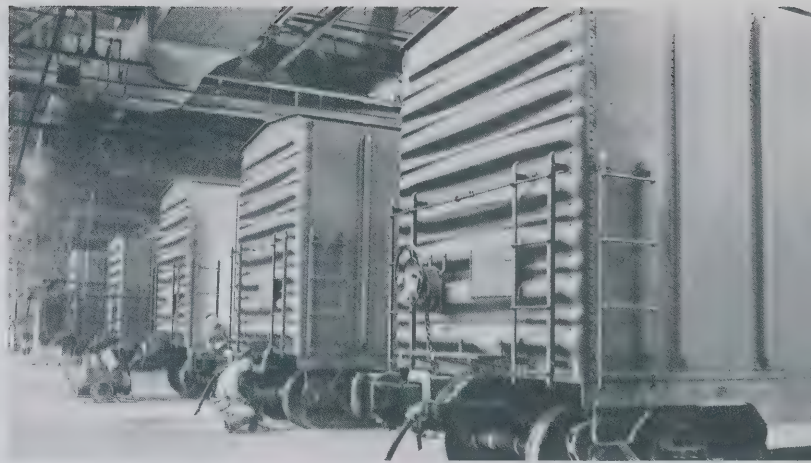
A new position devoted to the planning of long-range corporate objectives was created in 1966 and, early in 1967, was staffed by an officer from within the Soo skilled in planning and analysis.

A specialist was employed in the areas of quality control in transportation services and in the coordination of budgets in the transportation department.

A new position dedicated to the grain and grain-products transportation sales area was established in the sales and service department.

A new emphasis was placed on industrial development with the appointment of a director of industrial development.

IMPROVEMENTS Throughout 1966, the company continued its programs of improving both its rolling equipment and the fixed facilities — track, bridges, structures, etc. — which together make up the railroad plant. Other programs were designed to orient and to train personnel and to provide management with timely and accurate oper-



ASSEMBLY LINE for freight cars: The Soo's shop at Fond du Lac yearly produces a substantial number of the new cars the company acquires, as well as overhauling and upgrading existing cars. These are new insulated box cars, just about ready for painting.



RED, WHITE AND READY, a Fond du Lac product gets the finishing touches in the paint shop. Carman Don Nitke applies the reflective symbol which designates this insulated box car as a member of the Soo's growing fleet of highly specialized freight equipment.



GRAIN HAULER: One hundred of these "rolling grain elevators" went into service as the Soo began the gradual shift away from box cars to quick-loading hoppers for transporting grain. Five hundred more are on order for 1967. Car body is built of aluminum alloy.

ating data for better control and service.

The level of capital expenditures remained consistent with the over-all financial position of the company. Because no locomotives were acquired in 1966, the total amount of gross capital expenditures was slightly smaller than it was in 1965, when six locomotives were acquired.

Capital expenditures for improvements to roadway were nearly \$1,750,000 in 1966, or close to 15 per cent greater than they were in 1965. Capital outlays for freight train cars were more than \$6.4 million, about 3 per cent greater. The level of capital spending fails to reflect the true level of equipment acquisition, however, due to the leasing under attractive arrangements of a significant portion of the year's new freight cars. Spending for maintenance as reflected in the maintenance expense accounts was significantly greater: \$1.2 million above the 1965 level.

As the balance sheet indicates, investments in inventory of materials and supplies increased \$1.2 million in 1966. There were three principal reasons for the increase: A change in inventory control practices, which provided greater availability of material, resulted in more efficient scheduling of maintenance work. Calculated in-

creases were undertaken in certain classes of materials subject to unreliable delivery schedules. Track material was accumulated for anticipated projects.

Company forces installed new rail in 10 miles of track, 306,000 crossties, and more than 100 miles of new ballast. Company shops continued their regular car maintenance programs and, in addition, added 10 years each to the service life of 371 box cars through a special program.

Four hundred thirty freight cars were added to the Soo's fleet during 1966 — the largest annual addition since the formation of the new Soo. The new cars continued the program of equipping the Soo with high-quality general-purpose cars and with specialized cars designed to generate revenues from the transportation of individual kinds of freight.

Notable among the new cars were 100 covered hopper cars each of which has a capacity for grain equivalent to that of two box cars. With these cars, the Soo began to equip itself to handle all of its country grain and UniTrain grain shipments in covered hopper cars.

The change in grain handling is basic and necessary. Box cars — the traditional grain vehicle — require much handling and prep-



CONFERENCES AND CLASSES keep the Soo's supervisors current with the needs and progress of the company. Pictured here are mechanical department and industrial engineering staff officers.



NEW EMPHASIS on grain traffic sales is personified by R. J. "Bob" Riopelle, who occupies a new Traffic Manager's job devoted to the grain and grain-products industries.

A NATIONWIDE CORPORATION

Geographically, the Soo's 4,700 miles of track lie in the upper Midwest—Illinois, Wisconsin, Minnesota, the Dakotas, Montana, Northern Michigan. But its structure of sales offices, geared to the nationwide nature of transportation requirements, puts the influence of the Soo squarely where the business for its regional network of physical facilities is to be found:

THE EAST: Boston, Buffalo, Cincinnati, Cleveland, Detroit, Indianapolis, New York, Philadelphia, Pittsburgh, Washington.

THE SOUTH: Birmingham, Jacksonville, New Orleans.

THE MIDWEST: Bismarck, Chicago, Des Moines, Duluth, Eau Claire, Grand Forks, Houston, Kansas City, Marquette, Milwaukee, Minneapolis, Minot, Neenah-Menasha, St. Louis, St. Paul, Stevens Point, Thief River Falls.

THE WEST: Eugene, Portland, San Francisco, Seattle, Spokane.

CANADA: Calgary, Edmonton, Toronto, Vancouver, Winnipeg.

Got freight to move or an industry to establish? Call The Man From Soo at any of these sales offices—or call any corporate officer. We'll all be happy to help.

ation and are slow to load and unload. Hopper cars are self-cleaning and may be loaded and unloaded rapidly. The Soo intends through the acquisition of hopper cars over the next few years to become virtually self-sufficient in the area of grain-car supply and to improve grain car utilization.

Centralized traffic control, the modern method of dispatching trains, was extended over more of the main line between Chicago and the Twin Cities. Further progress was made in the program for a data system for principal freight terminals that will expedite car movements and provide up-to-the-minute information on car location and inventory. With the signing of agreements with train-service employees to operate cabooses on an interdistrict basis, the first of a fleet of all-steel cabooses went into use.

SPENDING IN 1967 Current plans call for an equipment program in 1967 of record size. Equipment with a value of more than \$16 million will be placed in service. Four locomotives of 3,000 horsepower each will be delivered in the spring. Eight hundred forty-five freight cars will arrive during the year, 500 of which will be grain hopper cars under lease.

Further additions will be made to the company's communications and traffic-control systems. New tools and techniques will be put to use in many areas of the company's activities, with the goal of making the Soo an even more efficient concern.

SOO LINE
RAILROAD COMPANY
BALANCE SHEET
DECEMBER 31

	ASSETS	1966	1965	INCREASE OR DECREASE
CURRENT ASSETS:				
Cash	\$	1,547,963	\$ 1,119,310	\$ 428,653
Temporary cash investments.....		16,997,552	16,074,757	922,795
Accounts receivable		7,494,886	7,112,250	382,636
Material and supplies.....		7,169,314	5,954,300	1,215,014
Other current assets.....		1,002,227	1,056,077	53,850
Total		34,211,942	31,316,694	2,895,248
SPECIAL FUNDS AND INVESTMENTS:				
Investments in and advances				
to affiliated companies (See Page 14).....		4,165,333	3,968,046	197,287
Special funds and other investments.....		5,817,465	521,471	5,295,994
Total		9,982,798	4,489,517	5,493,281
PROPERTIES:				
Transportation property		272,100,466	269,671,648	2,428,818
Miscellaneous property		560,582	485,238	75,344
Total		272,661,048	270,156,886	2,504,162
Less accrued depreciation and amortization.....		77,246,072	76,091,117	1,154,955
Net properties		195,414,976	194,065,769	1,349,207
OTHER ASSETS AND DEFERRED CHARGES		1,647,602	1,514,827	132,775
GRAND TOTAL		\$241,257,318	\$231,386,807	\$9,870,511

See Notes to Financial Statements, page 13

<i>LIABILITIES AND SHAREHOLDERS' EQUITY</i>	1966	1965	INCREASE OR DECREASE
CURRENT LIABILITIES:			
Accounts and wages payable.....	\$ 8,785,382	\$ 8,460,932	\$ 324,450
Interest accrued	2,608,521	2,522,520	86,001
Federal income taxes accrued.....	194,657	91,345	103,312
Other taxes accrued.....	2,015,006	1,779,631	235,375
Other current liabilities.....	764,881	627,176	137,705
Long-term debt due within one year.....	4,041,236	3,641,024	400,212
Total	18,409,683	17,122,628	1,287,055
LONG-TERM DEBT DUE AFTER ONE YEAR (See Page 15):			
Mortgage bonds	53,924,500	54,597,500	673,000
Equipment and other obligations.....	28,292,843	22,658,491	5,634,352
Total	82,217,343	77,255,991	4,961,352
OTHER LIABILITIES AND DEFERRED CREDITS.....	1,529,888	452,655	1,077,233
SHAREHOLDERS' EQUITY:			
Capital stock, common, no par value, stated value \$71.75 per share:			
Issued and outstanding, 1,264,441.57 shares exclusive of 37,002.5 shares of treasury stock pledged as collateral.....	90,723,683	90,705,028	18,655
Held for conversion, 1,467.68 shares.....	105,306	123,961	18,655
Total capital stock.....	90,828,989	90,828,989	—
Capital surplus	16,490,850	16,490,850	—
Retained income	31,780,565	29,235,694	2,544,871
Total shareholders' equity.....	139,100,404	136,555,533	2,544,871
GRAND TOTAL	\$241,257,318	\$231,386,807	\$9,870,511

SOO LINE
RAILROAD COMPANY

STATEMENT OF INCOME	1966	1965	INCREASE OR DECREASE
RAILWAY REVENUES:			
Freight	\$90,205,681	\$83,322,700	\$6,882,981
Passenger and mail	251,840	536,892	285,052
Other	2,391,934	2,042,528	349,406
Total	92,849,455	85,902,120	6,947,335
RAILWAY EXPENSES:			
Railway operating expenses (See Page 16)	68,202,447	65,044,136	3,158,311
Equipment rents — Net	6,445,888	4,851,959	1,593,929
Joint facility rents — Net	860,014	954,105	94,091
Taxes other than federal income taxes	7,063,508	6,425,342	638,166
Total	82,571,857	77,275,542	5,296,315
NET OPERATING INCOME	10,277,598	8,626,578	1,651,020
OTHER INCOME — NET	1,008,883	652,390	356,493
TOTAL INCOME	11,286,481	9,278,968	2,007,513
FIXED CHARGES:			
Interest on Wisconsin Central First Mortgage Bonds	524,002	529,428	5,426
Interest on equipment obligations	1,161,450	1,043,555	117,895
Other fixed charges	130,149	121,882	8,267
Total	1,815,601	1,694,865	120,736
CONTINGENT INTEREST:			
M.St.P.&S.S.M. First Mortgage Bonds	255,642	262,183	6,541
M.St.P.&S.S.M. General Mortgage Bonds	480,200	486,200	6,000
Wisconsin Central General Mortgage Bonds	861,300	872,891	11,591
D.S.S.&A. First Mortgage Bonds	165,301	169,915	4,614
Total	1,762,443	1,791,189	28,746
INCOME BEFORE FEDERAL INCOME TAXES	7,708,437	5,792,914	1,915,523
FEDERAL INCOME TAXES	1,175,952	239,000	936,952
NET INCOME	\$ 6,532,485	\$ 5,553,914	\$ 978,571

STATEMENT OF RETAINED INCOME

RETAINED INCOME AT BEGINNING OF YEAR	\$29,235,694	\$27,027,244	\$2,208,450
ADDITIONS:			
Net income	6,532,485	5,553,914	978,571
Net credit from bonds reacquired (1966, \$171,569 credit included in Other Income — Net)	—	135,786	135,786
Total Additions	6,532,485	5,689,700	842,785
Total	35,768,179	32,716,944	3,051,235
DEDUCTIONS:			
Cash dividends — Per share: 1966, \$3.15; 1965, \$2.75	3,987,614	3,481,250	506,364
RETAINED INCOME AT END OF YEAR	\$31,780,565	\$29,235,694	\$2,544,871

See Notes to Financial Statements, page 13

NOTES TO FINANCIAL STATEMENTS

1. No accounting recognition has been given to the possible effect on income taxes in future years of current reductions in income taxes resulting from deductions (net) for amortization and depreciation of property for income tax purposes in excess of deductions recorded in the accounts. The cumulative amount of such reduction in income taxes included in retained income at December 31, 1966, was approximately \$16,000,000 including \$1,000,000 applicable to the year 1966. At December 31, 1966, the Company has an unused investment credit carry-forward of approximately \$1,860,000.

2. The current cost of repairs and renewals of parts of the track structure is charged to maintenance expense and additions and betterments to the structure are capitalized. Provision for depreciation has been made as to other classes of transportation property. Charges for depreciation of road and equipment and for repairs and renewals of the track structure amounted to \$4,710,748 and \$7,030,998, respectively, in 1966 and \$4,593,280 and \$6,450,613, respectively, in 1965.

3. Income during the year 1966 was sufficient to meet all mortgage bond interest requirements. Sinking fund requirements under the various mortgage bond issues amounted to \$301,385 as of December 31, 1966, of which \$175,453 is to be satisfied by a deposit of reacquired bonds and the balance in cash.

4. Capital surplus as shown in this report includes \$14,146,743 representing paid-in surplus under Minnesota law which is reported as retained income to the Interstate Commerce Commission under its rules.

5. The Company's equity in Tri-State Land Company, a wholly owned subsidiary, exceeds the carrying value of its investment by \$2,138,405. Tri-State Land Company's undistributed earnings for the year 1966 were \$19,295 after payment of a dividend of \$100,000 to the parent Company.

6. The Company carries a service interruption policy under which it will be entitled to indemnity for certain work-stoppage losses. In the event such losses are sustained by other railroads holding similar policies, the Company may be obligated to pay additional premiums, subject to a maximum premium of approximately \$642,000.

7. At December 31, 1966, the Company was liable as guarantor, individually or jointly with others, of securities issued by affiliates amounting to \$43,703,933. Principal and interest have been paid by the principal debtor as each obligation became due.

8. The Company provides a pension plan for employees not subject to collective bargaining agreements, financed solely by Company contributions. Unfunded past service cost of the funded pension plan as of December 31, 1966, amounted to \$6,473,000. Payment of \$332,646 for normal cost and interest on the unfunded past service cost was made in 1966. The amount so paid was transferred to a trustee and benefits earned are disbursed by the Trustee from trust funds accumulated. The Company reserves the right at any time to alter, amend, or discontinue the plan, in whole or in part.

9. Stocks of affiliated companies, with the exception of Soo Line Equipment Company, Midland Continental Railroad, and 12,456 shares of Railway Express Agency, Inc., are pledged as collateral under the Company's various mortgage indentures.

10. Extraordinary items for the retirement of the Duluth, Minnesota, passenger station facilities and trackage at Riverdale Jct., North Dakota, used in construction of the Garrison Dam, were included in the income account for 1966 as follows:

Railway operating expenses...	\$ 397,318
Other income—Net	481,008
Applicable federal income tax reduction	Cr. 380,000
Net reduction of Net Income ...	\$ 498,326

The required deposit of cash into the Wisconsin Mortgage Division Road Replacement Fund for the year 1966, to be made on or before April 1, 1967, under the provisions of the Wisconsin Central Railroad Company First and General Mortgages, will be increased by \$826,000 because of the retirement of the Duluth passenger station facilities. Amounts are withdrawn from this fund on the basis of certain capital expenditures.

11. "Special funds and other investments" as shown in this report include as of December 31, 1966, \$5,040,000 as unexpended proceeds from the Soo Line Railroad Second Equipment Trust of 1966.

ACCOUNTANTS' OPINION

Soo Line Railroad Company:

We have examined the balance sheet of Soo Line Railroad Company as of December 31, 1966, and the related statements of income and retained income and of changes in working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, except that no provision has been made for the deferred income taxes referred to in Note 1 to the financial statements, the accompanying balance sheet and statements of income and retained income present fairly the financial position of the Company as of December 31, 1966, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year; and in our opinion such financial statements are in conformity with the Uniform System of Accounts for Railroad Companies prescribed by the Interstate Commerce Commission, and the accompanying statement of changes in working capital presents fairly the information shown therein.

Haskins & Sells
Minneapolis, Minnesota
February 8, 1967

CHANGES IN WORKING CAPITAL

	1966	1965
WORKING CAPITAL AT BEGINNING OF YEAR.....	<u>\$14,194,066</u>	<u>\$13,845,631</u>
Ratio of Current Assets to Current Liabilities:		
1966, 1.83:1; 1965, 1.80:1		
ADDITIONS:		
Net income	6,532,485	5,553,914
Depreciation and property retirements charged to income.....	5,652,592	4,551,646
Proceeds from financing of new equipment.....	5,020,529	6,396,524
Salvage from property retired.....	1,589,170	1,813,441
Other — Net.....	108,492	—
Total Additions	<u>18,903,268</u>	<u>18,315,525</u>
Total	<u>33,097,334</u>	<u>32,161,156</u>
DEDUCTIONS:		
Investment in property.....	8,662,613	9,387,379
Reduction of long-term debt.....	4,447,561	4,433,341
Investment in and advances to affiliates.....	197,287	583,841
Cash dividends	3,987,614	3,481,250
Other — Net.....	—	81,279
Total Deductions	<u>17,295,075</u>	<u>17,967,090</u>
WORKING CAPITAL AT END OF YEAR.....	<u>15,802,259</u>	<u>14,194,066</u>
Ratio of Current Assets to Current Liabilities:		
1966, 1.86:1; 1965, 1.83:1		
NET INCREASE IN WORKING CAPITAL.....	<u>\$ 1,608,193</u>	<u>\$ 348,435</u>

INVESTMENTS IN AND ADVANCES TO AFFILIATED COMPANIES

	Stock			Bonds, Advances, and Unsecured Notes
	Number of Shares	Per Cent of Ownership	Book Value	
The Lake Superior Terminal & Transfer Railway Co.....	849	16.67	\$ 87,300	\$ 100,522
The Mackinac Transportation Co.....	216 $\frac{2}{3}$	33.33	21,667	243,343
Sault Ste. Marie Bridge Co.....	5,000	50.00	1,000	138,704
Railway Express Agency, Inc.....	14,532	.70	700	202,409
The Belt Railway Co. of Chicago.....	2,400	8.33	240,000	146,616
Packers Car Line Co.....	110	3.45	1,100	—
Minnesota Transfer Railway Co.....	913	11.11	91,300	285,983
The Saint Paul Union Depot Co.....	1,036	12.50	130,475	273,627
Midland Continental Railroad.....	4,500	50.00	5,231	204,095
Tri-State Land Co.....	25,000	100.00	900,000	—
Soo Line Equipment Co.....	10	100.00	1,000	1,090,261
Total			<u>\$1,479,773</u>	<u>\$2,685,560</u>

See Notes to Financial Statements, page 13

MORTGAGE BONDS OUTSTANDING

	Amount Actually and Nominally Issued	Cancelled	Held In Treasury	Amount Outstanding Unmatured	Reacquired In 1966
M.St.P.&S.S.M.R.R.Co. First Mortgage 4½ % Cumulative Income Bonds, Series A, Due Jan. 1, 1971.....	\$10,000,000	—	\$4,344,700	\$ 5,655,300	\$139,000
M.St.P.&S.S.M.R.R.Co. General Mortgage 4% Income Bonds, Series A, Due Jan. 1, 1991.....	20,129,000	\$ 6,622,100	1,501,900	12,005,000	150,000
Wisconsin Central R.R. Co. First Mortgage 4% Fixed Interest Bonds, Series A, Due Jan. 1, 2004.....	14,706,900	1,564,400	121,500	13,021,000	128,000
Wisconsin Central R.R. Co. General Mortgage 4½ % Income Bonds, Series A, Due Jan. 1, 2029.....	20,441,000	1,130,000	171,000	19,140,000	168,000
D.S.S.&A.R.R.Co. First Mortgage 4% Income Bonds, Due Jan. 1, 1995*.....	5,000,000	896,800	—	4,103,200	88,000
Total Dec. 31, 1966.....	<u>\$70,276,900</u>	<u>\$10,213,300</u>	<u>\$6,139,100</u>	<u>\$53,924,500</u>	<u>\$673,000</u>

*D.S.S.&A.R.R.Co. First Mortgage Bonds were originally issued as Series A Bonds. In 1960 Series B Bonds were issued in the amount of \$4,411,300 and exchanged for an equal amount of Series A Bonds outstanding.

OTHER LONG-TERM DEBT MATURITIES

	Rolling Stock	Other	Total		Rolling Stock	Other	Total
1968	\$ 3,541,968	\$67,840	\$ 3,609,808	1975	\$ 1,909,535	—	\$ 1,909,535
1969	3,438,969	28,728	3,467,697	1976	1,702,054	—	1,702,054
1970	2,670,435	—	2,670,435	1977	1,629,787	—	1,629,787
1971	2,643,176	—	2,643,176	1978	1,493,775	—	1,493,775
1972	2,458,111	—	2,458,111	1979	1,166,000	—	1,166,000
1973	2,107,355	—	2,107,355	1980	899,000	—	899,000
1974	1,988,110	—	1,988,110	1981	548,000	—	548,000
				TOTAL	<u>\$28,196,275</u>	<u>\$96,568</u>	<u>\$28,292.843</u>

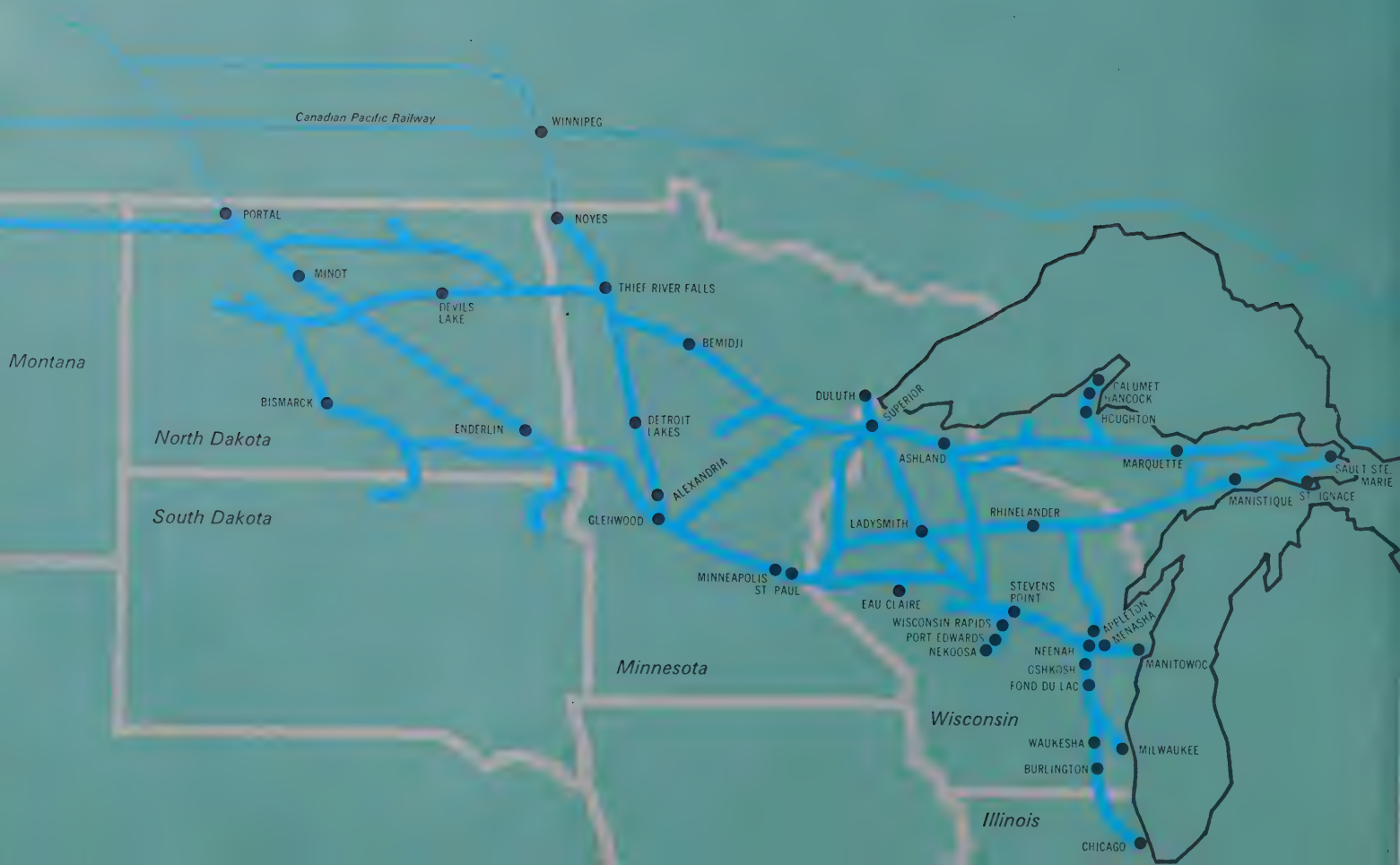
Table shows debt other than mortgage bonds and excludes amounts due within one year, which are included in Current Liabilities on the Balance Sheet.

RAILWAY OPERATING EXPENSES	1966	1965	INCREASE OR DECREASE
MAINTENANCE OF WAY AND STRUCTURES:			
Superintendence	\$ 983,453	\$ 954,903	\$ 28,550
Roadway and track.....	7,502,820	6,975,695	527,125
Structures	1,326,509	1,315,410	11,099
Depreciation	1,297,226	1,283,785	13,441
Miscellaneous	3,477,179	2,940,430	536,749
Total	<u>14,587,187</u>	<u>13,470,223</u>	<u>1,116,964</u>
MAINTENANCE OF EQUIPMENT:			
Superintendence	371,253	351,864	19,389
Repairs: Locomotives	3,209,849	2,887,914	321,935
Freight-train cars	3,870,096	3,913,225	43,129
Other	333,029	314,575	18,454
Depreciation	3,413,522	3,309,495	104,027
Miscellaneous	1,052,835	1,002,787	50,048
Total	<u>12,250,584</u>	<u>11,779,860</u>	<u>470,724</u>
TRAFFIC:			
Salaries and expenses	2,490,045	2,465,686	24,359
Miscellaneous	357,252	375,320	18,068
Total	<u>2,847,297</u>	<u>2,841,006</u>	<u>6,291</u>
TRANSPORTATION:			
Superintendence and dispatching trains.....	1,393,019	1,332,304	60,715
Station service	5,610,546	5,496,746	113,800
Yard service	9,282,238	8,875,330	406,908
Train service	14,560,516	13,856,113	704,403
Miscellaneous	3,750,851	3,345,954	404,897
Total	<u>34,597,170</u>	<u>32,906,447</u>	<u>1,690,723</u>
MISCELLANEOUS OPERATIONS	<u>—</u>	<u>4,902</u>	<u>4,902</u>
GENERAL:			
Salaries and expenses.....	2,620,950	2,631,113	10,163
General office supplies and expenses.....	298,148	297,822	326
Pensions	427,203	401,630	25,573
Miscellaneous	573,908	711,133	137,225
Total	<u>3,920,209</u>	<u>4,041,698</u>	<u>121,489</u>
TOTAL RAILWAY OPERATING EXPENSES.....	<u>\$68,202,447</u>	<u>\$65,044,136</u>	<u>\$3,158,311</u>

SIX-YEAR FINANCIAL AND STATISTICAL SUMMARY

	1966	1965	1964	1963	1962	1961
FINANCIAL						
Freight revenues	\$90,205,681	\$83,322,700	\$78,053,434	\$75,613,817	\$74,966,755	\$69,711,538
Other operating revenues	2,643,774	2,579,420	3,841,017	4,949,833	5,417,715	5,280,890
Total operating revenues	92,849,455	85,902,120	81,894,451	80,563,650	80,384,470	74,992,428
Operating expenses, taxes and rents	83,747,809	77,514,542	75,038,658	73,933,293	74,611,619	71,270,552
Net railway operating income	9,101,646	8,387,578	6,855,793	6,630,357	5,772,851	3,721,876
Other income — Net	1,008,883	652,390	850,252	773,509	570,018	237,419
Total income	10,110,529	9,039,968	7,706,045	7,403,866	6,342,869	3,959,295
Fixed charges	1,815,601	1,694,865	1,539,929	1,479,627	1,379,058	1,443,922
Contingent mortgage bond interest	1,762,443	1,791,189	1,810,747	1,827,897	1,863,748	1,851,722
Net income	\$ 6,532,485	\$ 5,553,914	\$ 4,355,369	\$ 4,096,342	\$ 3,100,063	\$ 663,651
STATISTICAL						
Shares of stock outstanding	1,265,909	1,265,909	1,265,909	1,265,909	1,265,909	1,265,909
Net income per share	\$5.16	\$4.39	\$3.44	\$3.24	\$2.45	\$.52
Sinking funds for retirement of mortgage bonds.....	\$ 301,385	\$ 301,385	\$ 301,385	\$ 301,385	\$ 301,385	\$ 174,179
Earnings per share after sinking funds....	\$4.92	\$4.15	\$3.20	\$3.00	\$2.21	\$.39
Rate of return on average net investment used for transportation purposes	3.93%	3.66%	3.03%	2.90%	2.45%	1.53%
Working capital, year's end	\$15,802,259	\$14,194,066	\$13,845,631	\$14,959,620	\$11,799,553	\$ 9,302,294
Ratio of current assets to current liabilities, year's end.....	1.86:1	1.83:1	1.80:1	1.93:1	1.72:1	1.63:1
Gross capital expenditures	\$ 8,662,613	\$ 9,387,379	\$ 9,401,251	\$ 8,827,242	\$ 2,491,782	\$ 2,858,584
STATISTICAL						
Miles of road operated, year's end	4,692	4,692	4,691	4,692	4,673	4,692
Carloads of freight handled	509,576	490,076	466,895	467,057	486,263	462,993
Tons of revenue freight handled	22,183,384	20,684,020	18,978,399	18,658,571	19,184,771	17,474,097
Freight train miles	4,872,760	4,637,032	4,598,544	4,570,910	4,660,361	4,488,656
Ratios to revenues:						
Fixed facility maintenance expense	15.71%	15.68%	15.11%	14.85%	13.18%	13.44%
Rolling stock maintenance expense	13.19%	13.71%	15.08%	16.21%	15.87%	17.10%
Transportation expense	37.26%	38.31%	39.48%	39.29%	40.63%	41.85%
Traffic, general, and miscellaneous expenses	7.29%	8.02%	8.38%	8.14%	8.64%	9.91%
All operating expenses	73.45%	75.72%	78.05%	78.49%	78.32%	82.30%
All operating expenses, taxes and rents.....	90.20%	90.24%	91.63%	91.77%	92.82%	95.04%
Employees, average number	5,745	5,644	5,786	6,017	6,239	6,404

Soo Line Railroad Company was formed January 1, 1961, through merger of Minneapolis, St. Paul & Sault Ste. Marie; Wisconsin Central; and Duluth, South Shore & Atlantic Railroad Companies.



Directors

J. G. Church
G. E. Creber
J. W. Feightner
F. C. Lennox
I. A. MacDonald
F. J. Orr
W. Garfield Weston

Officers

F. C. Lennox	Chairman and President
J. G. Church	Executive Vice-President
I. A. MacDonald	Vice-President, Packaging
J. W. Feightner	Vice-President, Automotive & Plastics Divisions
A. B. Van der Ende	Secretary-Treasurer

Management Committees

Head Office:

F. C. Lennox	Chairman
J. G. Church	Executive Vice-President
I. A. MacDonald	Vice-President, Packaging
J. W. Feightner	Vice-President, Automotive & Plastics Divisions
A. B. Van der Ende	Secretary-Treasurer
T. E. White	Manager, Industrial and Public Relations

Packaging:

I. A. MacDonald	Chairman
G. J. Deignan	General Manager, Consolth Division
E. J. Dewhurst	General Manager, Canadian Folding Cartons Division
K. W. Keene	General Manager, London Division & Winnipeg

Special Products:

J. G. Church	Chairman
J. C. Bacon	General Manager, Plastics Division
R. W. Bastien	General Manager, Display Division
J. W. Feightner	Vice-President, Automotive & Plastics Divisions
B. L. Morin	General Manager, Games Division

Transfer Agent

The Canada Trust Company
Toronto, London, Montreal, Winnipeg and Vancouver

TO THE SHAREHOLDERS:

Summary

In 1969, total Company sales reached an all-time high of \$45,300,000, an increase of \$1,641,000, or 3.8%. Net income from operations was \$1,528,000, a decrease of \$397,000 from 1968. Profits realized from the sale of fixed assets in 1968, amounting to almost \$50,000, were included in the profits for that year.

Operations

X PACKAGING

The Packaging and Related Products Divisions enjoyed an increase in sales during 1969. Despite this growth, profits did not keep pace. We were not able to increase selling prices in line with costs, in view of the packaging industry's general overcapacity. Research and new product development activities have been intensified in our Company to improve this situation.

X AUTOMOTIVE PANEL DIVISION

The Automotive Panel Division, consisting of three plants located at Scarborough and Windsor, had improved sales but depressed profits. Again, rising costs and the closely competitive market, which covers all of North America, had a direct bearing on profit levels. The slowdown of automotive sales, particularly in the last quarter, had a marked effect on total sales and profits. The Division has taken active steps to broaden its technological scope and diversify its product lines.

X DISPLAY DIVISION

The Display Division recorded a substantial increase in sales, with a corresponding improvement in profitability. Strengthening of personnel, both in plant and sales, should bring still further improvement in the future.

GAMES DIVISION

The game and toy industry experienced increasing price competition and the advent of new companies, including U.S. manufacturers, in the field. The result was a drop in both sales and profits. We have taken steps to correct this situation in 1970. Heretofore, our sales representation has been exclusively through agents. (Starting January 1, 1970, we have set up our own sales organization, and expect that this move will bring more favourable results.)

PLASTICS DIVISION

Continued investment in modern equipment, combined with an intensive selling program and rigid cost control, resulted in improved performance in all areas of the Plastics Division. First quarter results indicate a continuation of this very satisfactory trend.

Properties and Equipment

Capital expenditures during 1969 were approximately \$1,000,000. Nearly all of this was expended on new equipment. It is anticipated that 1970 expenditures will be slightly in excess of that figure. In February of 1970, a decision was reached to close our Strathmore Division, which manufactured Christmas Crackers and Novelties. The operation was not economically sound, and indications were that there was little likelihood of improvement. We anticipate no problem of disposal.

Working Capital

Working capital decreased from \$5,245,000 to \$4,774,000, a reduction of \$471,000. Of this amount, \$256,000 was the result of cash investment in Mastico Industries Limited, referred to later. The balance was due mainly to higher interest and other costs. Current assets at the end of 1969 stood at \$13,891,000, as against current liabilities of \$9,117,000, a ratio of 1.5 to 1. Both accounts receivable and inventories showed improvement over 1968 year-end.

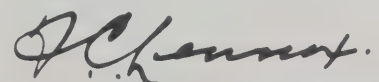
General

During 1969, the plant of Mastico Industries Limited in Tillsonburg was completed, and operations began July 1st. Mastico is a joint venture with Globe Industries Inc. of Chicago, Illinois, manufacturing sound deadening material for the automotive industry. Although not consolidated in this report, both sales and profits exceeded expectations.

We are pleased to announce the appointment of Mr. J. C. Bacon as General Manager of our Plastics Division, effective September 1st. As previously mentioned, our Games Division Sales were reorganized January 1, 1970, with Mr. H. J. Adelman as Sales Manager.

During the past year, we have employed professional consultants in the areas of profit improvement and cost reduction. These are already becoming effective, and we look forward to further improvement this coming year.

Considering the general economic situation during the first quarter, we look upon 1970 with cautious optimism. Our forecast is for improvement over 1969, particularly in the last half of the year. It is again a pleasure to express thanks to our employees, customers, and suppliers for their help and cooperation during the year, and we solicit their continued support in the coming year.



Chairman and President



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1969

(in thousands of dollars)

	1969	1968
NET SALES	\$45,300	\$43,659
Costs, excluding expenses shown below	<u>40,335</u>	<u>38,176</u>
OPERATING INCOME , before undernoted items	\$ 4,965	\$ 5,483
Deduct:		
Depreciation	\$ 1,027	\$ 1,026
Interest on long term debt	145	162
Other interest	514	356
	<u>\$ 1,686</u>	<u>\$ 1,544</u>
Operating income before income taxes	\$ 3,279	\$ 3,939
Taxes on income — current	\$ 1,905	\$ 2,115
— deferred	(154)	(101)
	<u>\$ 1,751</u>	<u>\$ 2,014</u>
NET INCOME FOR THE YEAR	\$ 1,528	\$ 1,925

Certain minor changes have been made in the 1968 comparative statement in order to conform with the presentation followed in 1969.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1969

(in thousands of dollars)

	1969	1968
RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 8,237	\$ 7,618
Net income for the year	<u>1,528</u>	<u>1,925</u>
	\$ 9,765	\$ 9,543
Deduct:		
Dividends — preferred shares	\$ 106	\$ 106
— common shares	1,200	1,200
	<u>\$ 1,306</u>	<u>\$ 1,306</u>
RETAINED EARNINGS AT END OF YEAR	\$ 8,459	\$ 8,237

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1969

(in thousands of dollars)

	1969	1968
CURRENT ASSETS		
Cash	\$ 10	\$ 11
Accounts receivable (note 1)	4,516	5,348
Inventories (note 2)	9,145	9,177
Prepaid expenses	220	246
	<u>\$13,891</u>	<u>\$14,782</u>
CURRENT LIABILITIES		
Bank Advances	\$ 1,139	\$ 335
Accounts payable and accrued liabilities (note 1)	2,217	3,090
Taxes payable	245	1,071
Long term debt payable within one year	190	315
Dividends payable	26	26
Advances from parent company	5,300	4,700
	<u>\$ 9,117</u>	<u>\$ 9,537</u>
WORKING CAPITAL	<u>\$ 4,774</u>	<u>\$ 5,245</u>
SINKING FUND RE PREFERRED SHARES —		
government and industrial bonds at market		
values (cost \$130,000)	\$ 100	\$ 100
INVESTMENTS — Shares in 50% owned company —		
Mastico Industries Limited — at cost	\$ 381	\$ 125
DEFERRED RECEIVABLES	\$ 14	\$ 28
FIXED ASSETS (note 3)	<u>\$21,370</u>	<u>\$20,511</u>
Less: Accumulated depreciation	9,782	8,867
	<u>\$11,588</u>	<u>\$11,644</u>
TOTAL ASSETS, LESS CURRENT LIABILITIES	<u>\$16,857</u>	<u>\$17,142</u>
LONG TERM DEBT (note 4)	\$ 2,017	\$ 2,342
DEFERRED INCOME TAXES	1,946	2,100
	<u>\$ 3,963</u>	<u>\$ 4,442</u>
NET ASSETS (being Shareholders' equity)	<u>\$12,894</u>	<u>\$12,700</u>
SHAREHOLDERS' EQUITY		
Capital stock (note 5)	\$ 2,245	\$ 2,245
Retained earnings (note 6)	8,459	8,237
Excess of appraised value of fixed assets		
over cost, less sundry charges	2,190	2,218
TOTAL SHAREHOLDERS' EQUITY	<u>\$12,894</u>	<u>\$12,700</u>

On behalf of the Board:

F. C. Lennox, Director

J. G. Church, Director



SOMERVILLE INDUSTRIES LIMITED and its wholly owned subsidiaries

NOTES TO CONSOLIDATED STATEMENTS

1. Accounts receivable and accounts payable:

Included in accounts receivable is an amount of \$287,000 owing from, and in accounts payable an amount of \$10,000 owing to affiliated and associated companies.

2. Inventories:

(in thousands of dollars)

The value of inventories is shown at the lower of cost and net realizable value.

	<u>1969</u>	<u>1968</u>
Raw material, goods in process and supplies	\$ 4,780	\$ 4,890
Finished goods	4,365	4,287
	<u>\$ 9,145</u>	<u>\$ 9,177</u>

3. Fixed assets:

The value of buildings and equipment is shown at cost or based on appraisals by Cooper Appraisals Limited made in 1951 and 1955. Other fixed assets and additions subsequent to the appraisals have been shown at cost.

	<u>1969</u>	<u>1968</u>
Land, buildings and leasehold improvements	\$ 5,941	\$ 5,839
Machinery and equipment	15,429	14,672
	<u>\$21,370</u>	<u>\$20,511</u>

4. Long term debt:

First mortgage bonds: Authorized \$10,000,000

	<u>1969</u>	<u>1968</u>
Series A — 5¼ % sinking fund, due October 15, 1973, outstanding	\$ 857	\$ 1,057
Less: Current sinking fund provision and cash in the hands of the trustee (net of bonds purchased in advance)	190	190
	<u>\$ 667</u>	<u>\$ 867</u>

Series B — 6% sinking fund, due June 15, 1977,

	<u>1969</u>	<u>1968</u>
outstanding	\$ 1,350	\$ 1,600
Less: Current sinking fund provision (net of bonds purchased in advance)	—	125
	<u>\$ 1,350</u>	<u>\$ 1,475</u>

Total long term debt	<u>\$ 2,017</u>	<u>\$ 2,342</u>
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Maturities and sinking fund requirements during the next five fiscal years are as follows: 1970, \$190,000; 1971, \$336,000; 1972, \$347,000; 1973, \$359,000; 1974, \$125,000.

5. Capital stock:

Authorized 100,000 cumulative, redeemable preferred shares, par value \$50 each, issuable in series, less 2,220 redeemed. 500,000 common shares, without par value.

	<u>1969</u>	<u>1968</u>
Issued: 37,780 cumulative \$2.80 sinking fund preferred shares, 1953 series, redeemable at \$51 per share	\$ 1,889	\$ 1,889
356,300 common shares	356	356
	<u>\$ 2,245</u>	<u>\$ 2,245</u>

6. Retained earnings:

Retained earnings includes an amount of \$111,000 set aside as capital surplus in connection with the redemption of preferred shares as required by section 61 of the Canada Corporations Act.

7. Long term leases:

Long term leases entered into by the companies extend into the year 1988. Under the terms of such leases aggregate rentals amount to approximately \$2,364,000. Maximum annual rentals payable thereunder for the years 1970 to 1974 are approximately \$150,000.

	<u>1969</u>	<u>1968</u>
8. Remuneration of Officers and Directors	\$ 222	\$ 190

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1969

(in thousands of dollars)

SOURCE OF FUNDS:	1969	1968
Net income for the year	\$ 1,528	\$ 1,925
Depreciation	1,027	1,026
Deferred income taxes	(154)	(101)
Special refundable taxes (net)	—	85
Sundry items (net)	15	20
	<u>\$ 2,416</u>	<u>\$ 2,955</u>
APPLICATION OF FUNDS:		
Purchase of fixed assets (net of disposals)	\$ 1,000	\$ 780
Investment in shares of 50% owned company — Mastico Industries Limited	256	125
Dividends to shareholders — preferred	106	106
— common	1,200	1,200
1970 Bond sinking fund instalments	325	315
	<u>\$ 2,887</u>	<u>\$ 2,526</u>
Increase (decrease) in working capital	\$ (471)	\$ 429
Working capital at beginning of year	5,245	4,816
WORKING CAPITAL AT END OF YEAR	<u>\$ 4,774</u>	<u>\$ 5,245</u>

Certain minor changes have been made in the 1968 comparative statement in order to conform with the presentation followed in 1969.

AUDITORS' REPORT

To the Shareholders of Somerville Industries Limited:

We have examined the consolidated statement of financial position of Somerville Industries Limited and its wholly owned subsidiaries as at December 31, 1969 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
January 19, 1970

CLARKSON, GORDON & CO.
Chartered Accountants

SOMERVILLE DIRECTORY

- **Head Office and London Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Winnipeg Plant**
1885 Sargent Avenue, Winnipeg 21, Manitoba
- **Consolith Division**
865 Hodge Street, Montreal 9, Quebec
- **Canadian Folding Cartons Division**
188 Cartwright Avenue, Toronto 19, Ontario
- **Panel Division — Scarborough**
20 Bertrand Avenue, Scarborough, Ontario
- **Panel Division — Windsor**
2744 Edna Street, Windsor, Ontario
- **Somerville Automotive Trim Limited**
2744 Edna Street, Windsor, Ontario
- **Display Division**
11 Lesmill Road, Don Mills, Ontario
- **Games Division**
P.O. Box 5760, Terminal 'A', London, Ontario
- **Somerville Plastics Division**
376 Orenda Road, Bramalea, Ontario

Sales Offices situated at all manufacturing divisions and at the following locations:

- Hamilton: 477 Main Street East
- Guelph: 21 Oak Street (P.O. Box 331)
- Moncton: P.O. Box 1106
- Peterborough: 166 Brock Street (P.O. Box 325)

Representatives:

- Newfoundland: N. C. Hutton, Ltd., St. John's
- Quebec: Marcel Messely, Quebec City
- Ontario: Mid-West Paper Limited, Port Arthur
Snelling Paper Sales Limited, Ottawa
- Prairie Provinces: Crown Zellerbach Canada Ltd., Winnipeg
Mid-West Paper Limited, Winnipeg
Canadian International Paper Company, Winnipeg

